

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	10 APRIL 2014
TITLE OF REPORT:	INTERNAL AUDIT ANNUAL REPORT 2013/14
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	NONE

1. INTRODUCTION

- 1.1** The following report summarises the work of the Internal Audit Section for 2013/14. The Audit Manager makes regular progress reports in year to the Audit Committee which allows an on-going evaluation of the overall internal control framework as reflected within Audit coverage.
- 1.2** A common set of Public Sector Internal Audit Standards (PSIAS) became effective from 1 April 2013. The PSIAS apply to all public sector internal audit service providers and were adopted by the Council's Internal Audit Service for 2013/14.

2. OUTPUT GENERATED DURING THE YEAR

- 2.1** The following table gives a comparison of the planned number of audits with the actual audits carried out as at 31 March 2014. As in any year, in 2013/14 it was necessary to amend the audit plan to take account of various factors throughout the year. This year, these factors mainly related to additional work being required to meet emerging risks and referrals. In particular, Internal Audit was requested to carry out work outside of the Audit Plan in relation to the implementation of the CIVICA system and additional work requested by the Head of Function (Resources).
- 2.2** In all 51 reviews (Final and Draft report issued/debriefed) were carried out to the completion of field work during 2013/14, compared to the 56 in the original Internal Audit Operational Plan. Five reviews were either postponed to 2014/15 or otherwise superseded at the request of the review sponsor or for other reasons. Thirteen reviews not included in the Operational Plan were carried out which were not originally planned for this period but were necessary for risk and/or compliance purposes or as the result of work relating to referrals. In all fifteen reviews included in the original Plan and not having been superseded or postponed were not carried out in the period.
- 2.3** Where reviews have not been carried out in 2013/14 but there is an assessed on-going level of risk that requires review, these reviews have been included in the Internal Audit Operational Plan for 2014/15.
- 2.4** The key financial reviews in the plan were completed to report in the period with the exception of Housing Rents (WIP), Treasury Management (debriefed) and Housing Benefits (debriefed).
- 2.5** In addition to the work on the 2013/14 Internal Audit Operational Plan, the first quarter of 2013/14 was taken up in part with the finalisation of work from the 2012/13 Internal Audit Operational Plan with nine final reports being issued during this period.

3. PERFORMANCE INDICATORS

- 3.1 Each year the Council's Internal Audit Service participates in pan Wales benchmarking against indicators relating to cost and output. This benchmarking is carried out in May/June each year and, therefore, the results for 2013/14 were not available in time to be included in this annual report.
- 3.2 When the results are published, they will be included in the next Internal Audit progress report thereafter.
- 3.3 The Internal Audit Service also sets internal Team targets each year and the performance against these is set out below with comparative data from previous year for information.

Performance Measure	Target 2013/14	2012/13 Actual	2013/14 Actual
% of 2013/14 reviews completed to draft in year - following amendment for those superseded, postponed and with addition of replacement reviews in year - please see paragraph 2.2 above. 51 reports issued compared to 56 in plan - 91%.	90%	81%	91%
Overall customer satisfaction levels from questionnaires.	90%	100%	100%
% of High & Medium IA recommendations implemented - from 01/04/11 as at 03/04/14.	80%	53%	46%

- 3.4 The percentage of High and Medium recommendations implemented is below target at 53%;
- 3.5 There have been in-period reporting of Internal Audit issues including implementation rates. During 2013/14, the Internal Audit Progress Report format has been amended so that details of the outstanding High category recommendations are highlighted for the Audit Committee's information. Internal Audit Progress reports are now being presented to the Senior Leadership Team for their information and support in ensuring that identified High level risks are being addressed promptly. It is intended that these reporting improvements will help increase the implementation rates for Internal Audit recommendations in 2014/15.
- 3.6 Internal Audit will carry out a review of outstanding recommendations in April 2014 and will again in 2014/15 be working with Services to update the 4Action system with the latest implementation data which, it is hoped, will assist in an improvement against target.
- 3.7 For 2014/15 Internal Audit will again review the format of reporting of completed reviews and their outcomes to the Committee and how implementation of individual review recommendations should be monitored and reported.
- 3.8 The Committee is asked to consider whether it believes that reporting upon all outcomes of reports and upon progress with recommendation implementation is being reported appropriately to the Committee.

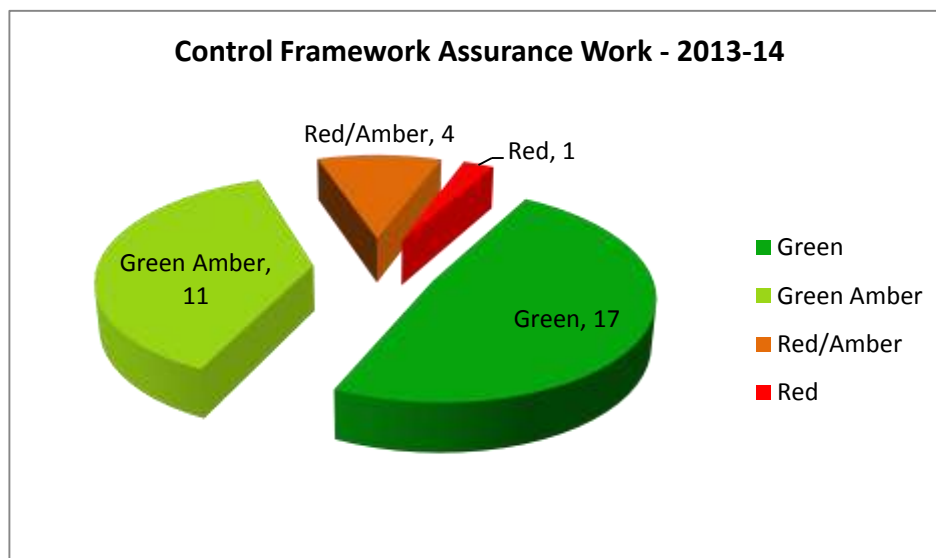
4. OVERALL CONCLUSION ON THE AREAS AUDITED

- 4.1 Table 1 shows the number of reviews undertaken in 2013/14 for which an opinion of either Green; Green/Amber; Red/Amber or Red opinion was given and includes the definition for each assurance level.

Table 1

RAG Opinion/ Grade	What is meant by the RAG Opinion/Grade	System/ Risk 2013/14
Green	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.	17
Green Amber	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However, we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	11
Red Amber	Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	4
Red	Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.	1
Advisory/ Referral	Advisory review designed to provide best practice advice – No formal opinion.	14
Report Awaited	Field work completed but no Draft or Final report issued with RAG opinion as at 31/03/14	4
Total		51

Table 2 – Pie Chart of RAG Opinions



4.2 Table 2 shows graphically the overall results of our Internal Audit work which resulted in a RAG assurance opinion in the period. The table shows 28 (85%) of such reviews resulted in ‘positive’ opinions (Green or Green/Amber) and 5 (15%) resulted in ‘negative’ assurance opinions (Red and Red/Amber). The 15% of reports receiving negative assurance opinions includes three reports directly relating to the Implementaion of a significant new system in the CIVICA Ledger, Creditors and Debtors system.

The overall opinion for the systems reviewed is a positive Green/Amber opinion which is in line with previous years.

- 4.3 This overall RAG Opinion translates to a minimal to low risk to the Authority, based on the scope of the work carried out, the action recommended to management being implemented and those systems continuing to operate as intended.
- 4.4 The Audit Manager is, however, aware of areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of those systems reviewed during the year. These areas are:-

- **Business Continuity** - The Council has continued to make progress in strengthening its Business Continuity arrangements that have been identified as an area of weakness by a number of assurance providers, including Internal Audit. Addressing the issues has been delayed due to regional collaboration and changes to the responsible line management of the function. It is understood that at the time of writing that strengthening Business Continuity is currently on the list of projects marked as medium/ low priority within the transformation process.

The Council still does not have a formal documented ICT Disaster Recovery Policy and work was still in progress at the end of the period to finalise the Council's Business Continuity arrangements and to strengthen the ICT back up and recovery processes for the Finance server.

- **Risk Management** - The Council is in the process of developing its Risk Management Framework and has yet to embed risk management into the Authority. Development work is scheduled to be undertaken onwards into 2014/15. In the meantime, the risks associated with not having a robust risk management framework in place continue.

Work has progressed on the Corporate Risk Register but at the end of the period the Corporate Risk Register still lacked recorded mitigating actions and calculated residual risk scores. Discussions were still on-going as to the reporting of the Corporate Risk Register when it is in a more complete format.

- **Governance** - Issues relating to non-compliance with key corporate policy and procedure were identified again in 2013/14. The Council also ceased the use of an electronic policy compliance system it had been operating in previous periods. At the time of reporting, discussions were on-going as to whether to and how to procure a system for use in 2014/15. Without such a system, it is more difficult to show that policies have been adequately disseminated to relevant staff and that staff have read, understood and agreed to abide by policies.

Corporately, following a thematic review of policy compliance by Internal Audit previously, a database of policies is being compiled along with details of the policy authors, last review and next review dates, authorising body (if applicable) and determination of significant 'key' policies and target audience. It is hoped that this database can be used to feed into an electronic policy compliance system when one is procured and implemented.

A number of policy areas are known to be in need of revision, examples of which are Financial Procedure Rules and Contract Procedure Rules which are receiving attention within the Resources Function. The SIRO has also begun introducing a suite of Information Governance policies which will also strengthen governance across the Council.

Policy and procedure and compliance with them is a key component of the Council's Governance framework. Failure to adequately ensure that staff are made aware of such policies and procedures increases the risk of non-compliance.

- **Information Management** - The Council was subject to a review of its Information Governance arrangements by the Information Commissioner's Office in 2013/14. This review re-iterated and expanded on known weaknesses within the Council's arrangements. The Council has subsequently set up an Information Project Group and produced an associated Action Plan to ensure that the recommendations made by the Information Commissioner's Office are implemented in line with agreed timescales with the Information Commissioner's Office.

At the time of reporting, some progress has been made in furthering the implementation of the recommendations and this work is scheduled to be on-going into 2014/15. In the meantime, the risks associated with the identified weaknesses in arrangements will continue.

- **System Implementations** - The Council undertook a significant system implementation in 2013/14 with the replacement of its key financial systems. The implementation also required a move to electronic entry of purchase orders, goods receipts and order authorisation within Services rather than centrally within the Finance Service. Reviews of the ledger, Creditors and Debtors systems following the implementation have identified some control gaps and some non-compliance with system controls which are being addressed by staff within the Resources Function.

As with all significant system implementations, such control issues are to be expected but still pose a risk to the Council if they are not addressed promptly.

These are considered important issues for the Council which need on-going work to address them in 2014/15.

- 4.5** It should be noted that any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The audits undertaken and completed did not identify any other areas of concern which are considered significant or business critical for the Council as a whole beyond those stated at 4.4 above.

5. STATEMENT ON INTERNAL CONTROL

- 5.1** The outcome of all completed Internal Audit reports is reported to the Audit Committee via the Audit Manager's quarterly Internal Audit Progress reports. Any system based review receiving a 'Red' assurance opinion is reported in detail to the Audit Committee.
- 5.2** One such report was presented to the Audit Committee in 2013/14. This review related to the Creditors system following the CIVICA implementation. A follow up of the recommendations made in this report along with top up testing from the implementation date to the date of testing was undertaken and a draft report issued with a revised RAG Assurance opinion of Red/Amber resulted.

Reports Issued In Period with RAG Opinion

APPENDIX A

	Report Title	IA Plan	Service Area	Report Status	RAG Opinion
1	Maritime Income	2012/13	Highways and Transportation	FINAL	Green
2	Members' Allowances – Follow Up	2012/13	Corporate	FINAL	Good Progress
3	Main Accounting System	2012/13	Finance	FINAL	Green
4	Cash Receipting	2012/13	Finance	FINAL	Green
5	Payroll	2012/13	Finance	FINAL	Green/Amber
6	Housing Rents	2012/13	Finance	FINAL	Red/Amber
7	CIVICA Implementation	2012/13	Finance	FINAL	Advisory
8	Ysgol David Hughes	2012/13	Primary School	FINAL	Green
9	Ysgol Beaumaris	2012/13	Primary School	FINAL	Green/Amber
10	Human Resources Systems – Self Service and Payroll	2013/14	Corporate	FINAL	Green/Amber
11	Mid Term Financial Plan – Efficiency Savings	2013/14	Corporate	FINAL	Advisory
12	Partnerships - Governance Arrangements	2013/14	Corporate	FINAL	Advisory
13	Housing Rents	2013/14	Housing	WIP	
14	Appointees / Deputies Practices	2013/14	Social Services	FINAL	Advisory
15	Direct Payments - Follow Up	2013/14	Social Services	FINAL	Good Progress
16	Cash Collection	2013/14	Finance	FINAL	Green
17	Sundry Debtors	2013/14	Finance	FINAL	Red/Amber
18	Creditor Payments	2013/14	Finance	FINAL	Red
19	Financial Ledger & Bank Reconciliation	2013/14	Finance	FINAL	Red/Amber
20	CIVICA Ledger – Post Implementation Review	2013/14	Finance	FINAL	Advisory
21	Housing Benefits	2013/14	Finance	DEBRIEFED	
22	Treasury Management	2013/14	Finance	DEBRIEFED	
23	Council Tax	2013/14	Finance	FINAL	Green/Amber
24	NNDR	2013/14	Finance	FINAL	Green/Amber
25	Payroll	2013/14	Finance	DRAFT	Green/Amber
26	Grant Claim Processes	2013/14	Finance	FINAL	Green
27	Car Park Fees and Excess Charge Notices - Collaborative	2013/14	Highways and Transportation	FINAL	Advisory
28	Waste Disposal – including Trade Waste	2013/14	Highways and Transportation	FINAL	Green

	Report Title	IA Plan	Service Area	Report Status	RAG Opinion
29	Blue Badges	2013/14	Highways and Transportation	FINAL	Green
30	Property & Environment Grant (PEG) Scheme	2013/14	Housing	FINAL	Green
31	David Hughes Leisure Centre	2013/14	Lifelong Learning	FINAL	Green
32	Ysgol Bodorgan	2013/14	Primary School	FINAL	Green/Amber
33	Ysgol Gyfun Llangefni	2013/14	Secondary School	FINAL	Green/Amber
34	Ysgol Kingsland	2013/14	Primary School	FINAL	Green
35	Ysgol Llanfachraeth	2013/14	Primary School	FINAL	Green/Amber
36	Ysgol Caergeiliog Foundation School	2013/14	Primary School	FINAL	Green
37	Ysgol David Hughes	2013/14	Secondary School	FINAL	Green
38	Schools – Follow Up Red and Red/Amber	2013/14	Schools	FINAL	Unsatisfactory Progress
39	WG Free Breakfast	2013/14	Education	FINAL	Green
40	School Thematic Review	2013/14	Education	FINAL	Advisory
41	Counter Fraud Arrangements	Not in Plan	Corporate	FINAL	Advisory
42	HR Procurement	Not in Plan	Human Resources	FINAL	Advisory
43	BMU Stock Check	Not in Plan	Housing BMU	FINAL	Green
44	Agency Staff - Method of Payment	Not in Plan	Finance	FINAL	Advisory
45	NFI Matches	Not in Plan	Corporate	FINAL	Green/Amber
46	Orchard - Logical Access Controls	Not in Plan	Housing	FINAL	Advisory
47	Treatment of Creditors and Debtors - Migration to CIVICA	Not in Plan	Finance	FINAL	Advisory
48	Microsoft Outlook - Administration	Not in Plan	ICT	FINAL	Advisory
49	VAT - Framework	Not in Plan	Finance	DRAFT	Green/Amber
50	Highways Grant - Late Claim - Ref 1862.13/14	Not in Plan	Highways and Transportation	FINAL	Advisory
51	Creditors Follow Up of Red Assurance report	Not in Plan	Finance	DRAFT	N/A Updated Creditors Opinion

Red: 1

Red/Amber: 4

Green/Amber: 11

Green: 17

Advisory: 14

Incomplete/No Opinion at 31-03-14: 1 WIP – 2 debriefed – 1 Drafts Follow Up issued = 4